

## A STUDY ON THE FINANCIAL PERFORMANCE USING COMPARATIVE ANALYSIS AND RATIO ANALYSIS AS A TOOL WITH REFERENCE TO MARUTI SUZUKI INDIA LIMITED

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### ABSTRACT

*Automobiles have become an essential in today's world. The car, which was once considered less affordable or afforded by only the elite rich class, has now become a part of everyone's comfortable life. More than a prestige factor, it has become a part of the daily life, be it for an individual to travel to his workplace, or a small business owner to go to his business place, or even people travel from one place to another with comfort and ease. Though automobiles have led to increased traffic and pollution in the world, yet its uses have also increased immensely in this world and era of globalization. From cycles to planes, each of them has their own benefits to every person in a different way. In ancient times, bullock carts tied to oxen were used as vehicles to go from one place to another. As the world developed and industrial revolution took place, motors were invented. This led to the creation of two-wheeled vehicles, motor cars, and planes and today has led to the creation of electric bikes and cars. A comparative analysis is the study of the trend of those numbers which belong to the same group that have already been calculated and presented. This may include two or more income statements or balance sheets of the same company on different dates or different financial periods. The similarities or differences in the balance sheet or income statement that undergo comparison reflect the conduct of a business. The changes can be observed by comparing the financial statements of two different periods, or two different companies in the same industry (comparison with the performance of a competitor). These changes will help in concluding about the progress and performance of the business. (Source: [www.xamidea.in](http://www.xamidea.in)). Ratio Analysis is a financial tool that helps in analyzing the performance and position of the company in terms of profitability, turnover, liquidity, etc. It is conducted as a further analysis after the financial statements are clearly analyzed and interpreted. It basically helps in giving a clear picture of the interaction of the company with its internal and external factors and environment. (Source: Financial Management- Indian Institute of Banking and finance-Macmillian). This study intends to analyze the earning capacity and profitability of Maruti Suzuki India Limited in terms of short term and long term solvency, financial stability and long-term liquidity.*

**KEYWORDS:** *Balance Sheet, Financial Statements, Comparison and Performance, Ratio Analysis, Earning Capacity & Solvency*

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### INTRODUCTION

To travel safely from one place to another, it is very essential to have a vehicle, be it cycle, two-wheeler bike or car. Automobiles have become an essential in today's busy life. There are many companies that manufacture vehicles, be it two-wheelers or four wheelers. With improved technology and design, vehicle manufacturing industry has grown hugely. From the olden days, different types of modes of transport were used.

These include animals like horses, oxen, donkeys, which further moved on to materials in the form of motorized vehicles, to the modern day cars and scooters. As the world progresses and due to the industrial revolution and global unity, all types of vehicles are available in all countries in the world.

If we look back at history, François Isaac de Rivaz designed a car in the year 1808, which had an internal combustion engine that had hydrogen as its fuel. Further in the year 1870, Siegfried Marcus made a gasoline engine which was a two cycle combustion engine. Nikolaus Otto owns the patent of the four stroke combustion engine, that is fuelled by petrol. In the year 1885, a person named Karl Benz developed an engine that was fuelled by petrol and gasoline. This “Benz” vehicle is known as the first vehicle that was produced, followed by Ford Motor Company.

Today automobiles have become a part of everyone’s life and a thorough understanding about the features available, pricing, safety and individual requirements plays a major role before purchase. Depreciation in the value of the vehicle leads to the decreased value of the vehicle, thus reducing its selling price, while making a pre-owned sale.

Many a times, companies tend to call back the vehicles that have been sold to the customers, due to certain manufacturing defects like light system, steering problems, etc. This process is called as “product recall”, and is a very common thing these days, particularly in the automobile sector. As the years have progressed, the vehicle count on roads has also increased. Many people own more than one vehicle, thus increasing its population on the road, leading to traffic congestion, pollution and health problems. Pooling of cars, where one person who owns a car, accommodates few people in his car (typically colleagues), to avoid the traffic congestion. Such initiatives lead to better traffic conditions in the world.

Financial statement analysis is considered the most essential part of financial management. It intends to analyze the available financial statements of all types of companies and interpret the same in terms of profitability, liquidity, solvency and the like. It is extremely important to understand the performance of a company in the manufacturing sector. Analyzing the financials of a company in terms of its performance plays a major role in the decision making process, since it involves all the stakeholders like shareholders (owners of the company), creditors, management, employees, people who desire to invest in the company in future, etc. It is also needed by the government of the particular country and the various financial institutions (who could be prospective creditors to the company), to understand the stability and market standing of the company.

Financial statements indicate the various financial activities that have taken place within a given time frame or financial period. Financial statements only indicate the results of the period, relating to the company, but financial statement analysis help in understanding these financial figures and give a clearer picture to the stakeholders. This indicates the importance of financial statement analysis, and the current study is conducted to investigate into financial statements, to evaluate the performance and profitability of Maruti Suzuki India Limited.

## **RESEARCH METHODOLOGY**

### **Objectives of the Study**

- To understand the earning capacity of the present and future of Maruti Suzuki India Limited, in terms of profitability.
- To help the debenture holders and creditors understand the short term and long term solvency of the company that would benefit them.

- To analyze the financial stability of the company.
- To understand the liquidity position of the company.
- To understand the importance of financial data and its analysis.
- To assess the operating efficiency of Maruti Suzuki India Limited as a whole.

### Scope of the Study

The study is limited to assessing the performance of the company (Maruti Suzuki India Limited) using past data, collected from secondary sources, and has been thoroughly analyzed using comparative statement analysis and a few ratios.

### Tools Used for Analysis

Comparative financial statement analysis and a few ratios have been used for the purpose of analysis of the data.

### Data Collection Method

The data presented has been collected from secondary sources, that include the company website and other websites and journals.

### Sampling Technique

Descriptive analysis has been used for the purpose of study of the research.

### Reference Period

The data have been collected for a period of 2 financial years from 2015-2017.

## COMPARATIVE ANALYSIS OF DATA

The balance sheets of Maruti Suzuki India Limited (MSIL), for 2 financial years i.e. 2015-16 and 2016-17 have been collected and analyzed using comparative analysis. This process includes finding out the absolute changes in each year, when compared to the previous year and thus the percentage of change. Analysis is done on the basis of these changes from year to year.

**Table 1: Comparative Analysis of Balance Sheet as on 31.03.2016 and 31.03.2017 (In Millions of ₹)**

Particulars	Note Nos.	As of 31.03.2016	As on 31.03.2017	Absolute Changes	% of Change
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant & equipment	4	121,631	129,162	7,531	6.19
Capital work-in-progress	4	10,069	12,523	2,454	24.37
Intangible assets	5	3,469	3,730	261	7.52
Financial assets:					
Investments	6	188,754	262,147	73,393	38.88
Loans	7	4	3	(1)	(25)
Other financial assets	9	231	238	7	3.03
Other non-current assets	12	16,782	16,031	(751)	(4.48)
<b>Total non-current assets</b>		<b>340,940</b>	<b>423,834</b>	<b>82,894</b>	<b>24.31</b>
<b>Current assets</b>					
Inventories	10	31,321	32,622	1,301	4.15

Table 1: Contd.,					
Financial assets:					
Investments	6	10,568	20,137	9,569	90.55
Trade receivables	8	13,222	11,992	(1,230)	(9.30)
Cash and bank balances	11	391	131	(260)	(66.50)
Loans	7	31	25	(6)	(19.35)
Other financial assets	9	1,478	950	(528)	(35.72)
Current tax assets (Net)	21	4,854	4,854	0	---
Other current assets	12	16,595	15,388	(1,207)	(7.27)
<b>Total current assets</b>		<b>78,460</b>	<b>86,099</b>	<b>7,639</b>	<b>9.74</b>
<b>Total assets</b>		<b>419,400</b>	<b>509,933</b>	<b>90,533</b>	<b>21.59</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity:</b>					
Equity share capital	13	1,510	1,510	0	---
Other equity	14	297,332	360,201	62,869	21.14
<b>Total equity</b>		<b>298,842</b>	<b>361,711</b>	<b>62,869</b>	<b>21.04</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Financial liabilities:					
Borrowings	15	---	---		
Provisions	17	148	219	71	47.97
Deferred tax liabilities (Net)	18	1,943	4,640	2,697	138.81
Other non-current liabilities	19	8,075	11,050	2,975	36.84
<b>Total non-current liabilities</b>		<b>10,166</b>	<b>15,909</b>	<b>5,743</b>	<b>56.49</b>
<b>Current liabilities</b>					
Financial liabilities:					
Borrowings	15	774	4,836	4,062	524.81
Trade payables					
Total outstanding dues of micro enterprises and small enterprises	20	533	832	299	56.10
Total outstanding dues of creditors other than micro enterprises and small enterprises	20	73,540	82,841	9,301	12.65
Other financial liabilities	16	11,971	13,027	1,056	8.82
Provisions	17	3,989	4,490	501	12.56
Current tax liabilities (Net)	21	7,956	8,036	80	1.01
Other current liabilities	19	11,629	18,251	6,622	56.94
<b>Total current liabilities</b>		<b>110,392</b>	<b>132,313</b>	<b>21,921</b>	<b>19.86</b>
<b>Total liabilities</b>		<b>120,558</b>	<b>148,222</b>	<b>27,664</b>	<b>22.95</b>
<b>Total equity and liabilities</b>		<b>419,400</b>	<b>509,933</b>	<b>90,533</b>	<b>21.59</b>

Source: Maruti Suzuki "Standalone Financial Statements"- Statutory Report 2016-17 in terms of the report attached For Deloitte Haskins & Sells LLP

### Analysis

**Assets:** Property, Plant and equipment form a part of the assets of the company and remain an important part of the manufacturing and selling process. These have increased by ₹7, 531 million, i.e. 6.19%. This shows that the company has invested some money in plant, property and equipment in 2017 compared to 2016. Capital work in progress refers to that account which is opened and maintained when an asset is under construction or yet to be completed or yet to be acquired even at that time when the balance sheet is being prepared. The company's capital work in progress has increased by 24.37%, this clearly indicates that there are many assets that are yet to be acquired and are not yet ready to use. The

company thus needs to speed up the process of conversion. Intangible assets include the goodwill, copyrights, patents and any other permissions or rights that are exclusive to a company. Intangible assets have increased by ₹ 261 million, which indicates that the company might have acquired new patent rights, for a new line of cars in terms of design, structure, etc. The financial assets of a company include investments, loans given, accounts receivable, investment in stocks and bonds. Maruti Suzuki India Limited's financial assets have together increased by ₹ 73,399 million, which is a positive sign and indicates that the company has made sufficient investment of funds, (investments being highest increase), loans advanced have been less, which shows that the threat of bad and doubtful debts is less. Total current assets have increased by ₹ 7,639 million. The investments and inventories have increased, while the cash and bank balances have decreased. Though the company has liquid cash in the form of current investments, yet it is equally important to maintain increased cash and bank balance, for emergency requirements of the company.

**Liabilities:** The equity capital remains unchanged. But other equity (which could include the market value of available sale of securities), has increased since it depends upon the changes in the market value. The total equity value, thus, has increased by 21.04%, which shows that the value of securities in the market is on an increasing trend. Noncurrent liabilities include the borrowings, provisions, deferred tax liabilities, long term lease agreements, borrowings for a long period, etc. Total non-current liabilities have increased by ₹ 5,743 million, which indicates that the company has borrowed or increased its loans for manufacturing/ expansion purposes. If planned, designed and executed correctly, the cars that would be introduced, could earn much more than the loans, thus increasing profit chances. The total current liabilities of Maruti Suzuki India Limited have increased by ₹ 21,921 million, i.e. 19.86% in 2017, when compared to the year 2016. Current liabilities generally refer to those commitments/loans that are to be repaid within a year's time. Thus the company has to make all necessary arrangements in terms of profit goal, so as to pay off or at least reduce the extent of current liabilities' obligation to a certain extent.

Overall, Maruti Suzuki India Limited's Balance sheet of 2016-17, clearly indicates that the company has been progressive in terms of earning sufficiently and also shows that the company is working on the expansion activities or adding of new products to the product line. It is evident since the company has introduced the New Desire series in 2017 June, and has become a huge and popular buy among customers. This clearly is a progressive indication of the company for the current financial year. Also, the company has tried to segregate the car sales into two divisions- one being the parent dealer with specific cars and the other being "Nexa" which deals with premium Maruti cars. All these add on to the customer attraction and clear segregation of products according to their requirements.

**Table 2: Comparative Analysis of Profit & Loss Statement for the Year Ended 31.03.2016 and 31.03.2017 (In Millions of ₹)**

Particulars	Note nos.	For the Year Ended 31.03.2016	For the Year Ended 31.03.2017	Absolute Changes	% of Change
<b>I Revenue from operations</b>	22	650,546	772,662	122,116	18.77
<b>II Other income</b>	23	14,610	22,798	8,188	56.04
<b>III Total income(I + II)</b>		<b>665,156</b>	<b>795,460</b>	<b>130,304</b>	<b>19.59</b>
<b>IV Expenses</b>					
Cost of materials consumed	24.1	3,64,839	426,296	61,457	16.84
Purchases of stock-in-trade	53	32,066	44,821	12,755	39.78
Changes in inventories of finished goods, work-in-progress and stock-in-trade	24.2	69	(3,801)	(3,870)	(5608.69)
Excise duty		75,165	92,314	17,149	22.82

Employee benefit expense	25	19,788	23,310	3,522	17.80
Finance costs	26	815	894	79	9.69
<b>Table 2: Contd.,</b>					
Depreciation and amortization expense	27	28,202	26,021	(2181)	(7.73)
Other expenses	28	80,377	87,228	6,851	8.52
Vehicles/ Drives for own use		(602)	(1,036)	(434)	(72.09)
<b>Total expenses (IV)</b>		<b>590,719</b>	<b>696,047</b>	<b>105,328</b>	<b>17.83</b>
<b>V Profit before tax (III-IV)</b>		<b>74,437</b>	<b>99,413</b>	<b>24,976</b>	<b>33.55</b>
<b>VI Tax expense</b>					
Current tax	29	20,414	23,317	2,903	14.22
Deferred tax	29	380	2,719	2,339	615.53
		20,794	26,036	5,242	25.21
<b>VII Profit for the period (V-VI)</b>		<b>53,643</b>	<b>73,377</b>	<b>19,734</b>	<b>36.79</b>
<b>VIII, Other comprehensive income</b>					
A (i) Items that will not be re-classified to profit or loss					
(a) Gain / (loss) of defined benefit obligation	14.4	(99)	(158)	(59)	(59.60)
(b) Gain / (loss) on change in fair value of equity instruments	14.5	99	2,361	2,262	2284.84
		---	2,203		
A (ii) Income tax relating to items that will not be re-classified to profit or loss		44	61	17	38.64
B (i) Items that will be re-classified to profit or loss					
(a) Effective portion of gain / (loss) on hedging instruments in a cash flow hedge	14.6	40	(72)	(112)	(280)
		40	(72)		
B (ii) Income tax relating to items that will be re-classified to profit or loss		(14)	25	39	278.57
<b>Total other comprehensive income (A [i+ii] + B [i+ii])</b>		<b>70</b>	<b>2,217</b>	<b>2,147</b>	<b>3067.14</b>
<b>IX Total comprehensive income for the period (VII+VIII)</b>		<b>53,713</b>	<b>75,594</b>	<b>21,881</b>	<b>40.74</b>
Earnings per equity share	31				
Basic		177.58	242.91	65.33	36.79
Diluted		177.58	242.91	65.33	36.79

**Source:** Maruti Suzuki "Standalone Financial Statements"- Statutory Report 2016-17 in terms of the report attached For Deloitte Haskins & Sells LLP

### Analysis

The total income of the company has increased by ₹ 130,304 million that includes revenue from operations and other income. This is a positive indicator that the company has been progressing year after year. Being India's most trusted brands in the automobile (car) segment, Maruti Suzuki India Limited has put in its best efforts to introduce a variety of cars with different features to the customers. The increase in income clearly shows that it has succeeded in achieving the same. The total expenses of the company have also increased by 17.83% i.e. ₹ 105,328. This can be attributed to the fact that the company has been investing more in the changing of structure and design of cars and adding new features. Though the expenses have increased, there is a simultaneous increase in income as well in 2017, when compared to the year 2016, which shows that the company has planned its best to implement the strategies that has led to increased income. The total profit for the period, i.e. for the year ending 31.03.2017 has been ₹ 73,377 million, while for the year ending 31.03.2016 has been ₹ 53,643 million. This clearly indicates that Maruti Suzuki India Limited has performed extremely well in year

2017, when compared to 2016. Further the earnings per equity share (basic earnings per share is the basic earnings on the normal earnings on the equity share while the diluted earnings per share refers to those earnings that could have occurred if all convertible securities were included) have increased in 2017 when compared to 2016 by 36.79%, which is clearly indicative of the profitability and market position of the company.

## **RATIO ANALYSIS**

Ratio analysis helps is used as a financial tool for analyzing the financial statements of a company, so as to find out the company's performance in terms of liquidity, profitability, solvency and market performance. There are various ratios that are used for this purpose. These include the liquidity ratios, solvency ratios, profitability ratios, solvency ratios, etc. Each ratio indicates about the company's finances that have been included in the balance sheet and profit and loss account items.

**Current Ratio:** This is calculated by dividing the current assets by the current liabilities. For Maruti Suzuki India Limited, in the year 2017, Current ratio is as follows:

**Table 3**

<b>Current Assets</b>	<b>Current Liabilities</b>	<b>Current Ratio</b>
86,099	132,313	0.65

The current ratio is less than 1, since the current assets are less than the current liabilities, which shows that the company is not in a good position to clear off its short term debt obligations.

### **Liquid Ratio**

**Table 4**

<b>Quick/ Liquid Assets</b>	<b>Current Liabilities</b>	<b>Liquid Ratio</b>
53,477	132,313	0.40

The quick assets include all current assets, except inventories. Maruti Suzuki India Limited's liquid ratio is 0.40. This value indicates that the quick assets are less than the current liabilities, and thus there is a shortage of the liquid assets to pay off the current liabilities.

### **Gross Profit Ratio**

It is calculated by dividing the gross profit from the net sales of the company.

**Table 5**

<b>Gross Profit</b>	<b>Sales</b>	<b>Gross Profit Ratio</b>
99,413	772,662	12.86%

The ratio is comparatively less, which is not a good indicator of the company's progress.

### **Net Profit Ratio**

Net profit is arrived at after deducting the interest and tax from the gross profit.

**Table 6**

<b>Net Profit</b>	<b>Sales</b>	<b>Net Profit Ratio</b>
73,377	772,662	9.5%

The net profit is extremely less when compared to the sales made by the company. This shows that the company has incurred a lot of other expenses in the process of manufacturing and selling.

## CONCLUSIONS

Maruti Suzuki India Limited has been in the automobile sector since 1981. Its contribution to the Indian economy in terms of providing quality cars, that are quite affordable, has led to the company being customer favored brand. Observing the finances of the company and a thorough analysis clearly indicates that, the company has put in its best efforts to provide maximum satisfaction to the customers. The comparative analysis shows that, the company has been working towards building a strong market position and reputation. The employees and the dealers have been totally involved to increase the sales process. The research of the financial of Maruti Suzuki India Limited in 2016-17, thus show that the company has moved up the ladder towards increased sales and customer satisfaction, and needs to maintain the same and work towards further growth of the company.

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